

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00

CIAE-00 DODE-00 INR-07 NSAE-00 PA-01 USIA-06 PRS-01

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 4610

INFO AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: USEGJ: EFIN

SUBJECT: DEVELOPMENTS - OR LACK THEREOF - ON
THE BANKING FRONT

REF CAIRO 5592

SUMMARY: FOREIGN BANKS CONTINUE TO SHOW INTEREST
IN OPERATING IN EGYPT, EVEN IF DESIRE IS NOT FULLY RECIPROCATED
BY GOE, AT LEAST NOT YET. MANUFACTURERS HANOVER IS
LATEST BANK TO FEEL CRUSHING WEIGHT OF BUREAUCRACY, AS
ITS EFFORTS TO OPEN FREE-ZONE BRANCH HAVE RUN INTO SERIOUS
OBSTACLES. END SUMMARY.

1. HIGH-LEVEL GOE PRONOUNCEMENTS TO CONTRARY, VERY LITTLE PROGRESS IS
BEING MADE IN IMPLEMENTING OPEN DOOR POLICY, PARTICULARLY IN TERMS
OF OVERCOMING BUREAUCRATIC OBSTACLES, AND ESPECIALLY IN RELATION
TO EFFORTS OF FOREIGN BANKS TO BEGIN OPERATIONS. REFTTEL REPORTED
OPENING OF AMERICAN EXPRESS INTERNATIONAL'S FOREIGN CURRENCY
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BRANCH, WHICH IS STILL OPERATING ON A DAY TO DAY BASIS UNDER

HEAVY SHADOWS RESULTING FROM GOVERNMENTAL RESTRICTIONS, AND PREVIOUS MESSAGES HAVE DETAILED DIFFICULTIES OF CHASE MANHATTAN'S JOINT VENTURE, WHICH IS STILL NOT OPEN. NOW A NEW SET OF PROBLEMS HAS ARISEN WITH RESPECT TO FREE-ZONE BANKING.

2. MANUFACTURERS HANOVER TRUST (MHT), OFFICIALLY OPENED ITS FREE ZONE BRANCH ON APRIL 14, 1975, FOLLOWING ALMOST A YEAR OF PREPARATION. OPENING WAS LARGELY CEREMONIAL, COINCIDING WITH PRESENCE IN ME OF IMPORTANT COMPANY OFFICIALS, BUT MHT REPS EXPECTED THAT FEW REMAINING DETAILS WOULD BE TAKEN CARE OF IN VERY SHORT TIME. AS LICENSED BRANCH IN PRIVATE FREE ZONE IN CAIRO, BANK DID NOT HAVE TO CONCERN ITSELF WITH CAPITAL, TAXES OR PERMITS FOR MOVEMENTS OF FUNDS ETC, SINCE IN ESSENCE IT IS NOT IN EGYPT AT ALL AND DEALS ONLY IN FOREIGN CURRENCY. COMPANY, WHICH HAS ONLY SMALL NUMBER OF BRANCHES WORLDWIDE (ABOUT 7), WAS EXPECTING TO MAKE CAIRO CENTER OF REGIONAL OPERATIONS.

3. MHT BASED ALL OF ABOVE ON ORAL APPROVAL OF ITS APPLICATION BY AUTHORITY FOR ARAB AND INTERNATIONAL ECONOMIC COOPERATION IN JULY 1974, FOLLOWED BY WRITTEN AUTHORIZATION BY AUTHORITY FOR ARAB AND FOREIGN INVESTMENTS AND FREE ZONES IN OCTOBER. SINCE THAT TIME, OFFICIALS OF MHT HAVE MADE NUMBER OF TRIPS BACK AND FORTH TO EGYPT, IN EFFORTS CLARIFY DIFFERING VIEWPOINTS BETWEEN CENTRAL BANK AND FREE ZONE AUTHORITY CONCERNING REGULATIONS, CONTROLS, ETC, AND WERE REPEATEDLY ASSURED BY LATTER AND MINISTER FOR ECON COOP (MOST RECENTLY ON APRIL 12, JUST BEFORE HE LOST HIS JOB) THAT THERE WERE NO OBSTACLES TO PLAN.

4. COMPANY THEREFORE LEASED OFFICE SPACE, HIRED LOCAL EMPLOYEES, BROUGHT IN TWO EXPATRIATES TO OVERSEE OPERATIONS ETC, AND ANNOUNCED TO ITS CUSTOMERS THAT IT WAS IN BUSINESS IN ME (NEAREST BRANCHES ARE IN EUROPE AND SINGAPORE). TO ITS SURPRISE, AND CONSIDERABLE CONCERN, MHT HAS NOW BEEN ADVISED BY MINECON COOP THAT FREE ZONE BANKS CAN ONLY OPERATE IN DESIGNATED FREE ZONES ("WHY DON'T YOU MOVE TO PORT SAID?") AND THAT THERE IS SOME QUESTION ABOUT EGYPT'S NEEDS FOR FREE ZONE BANKS AT ALL ("WHY DON'T YOU OPEN A FOREIGN CURRENCY BRANCH?").

5. MHT REPS HAVE EXPLAINED TO EMBOFFS THAT THEY HAVE NO EMOTIONAL COMMITMENT TO OPENING IN EGYPT; THEY CAME BECAUSE IT LIMITED OFFICIAL USE

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SEEMED A CONVENIENT PLACE TO BE AND BECAUSE THEY WERE ASSURED THEY COULD OPERATE A FREE ZONE BRANCH IN CAIRO (WHICH INVESTMENT LAW DOES PERMIT). THEY HAVE NO DESIRE WHATEVER TO HAVE A FOREIGN CURRENCY BRANCH HERE - NOR DO THEY HAVE ONE ANYWHERE ELSE - AND IF GOE DOES NOT QUICKLY WITHDRAW WHAT APPEARS TO BE TOTALLY UNREALISTIC RESTRICTIONS, THEN MHT WILL GO SOMEWHERE ELSE. SENIOR REP, WHO DESCRIBES HIMSELF AS A TROUBLE-SHOOTER SENT OUT TO GET THINGS

GOING, SAYS HE WILL NOT PERMIT HIS REPUTATION TO BE DESTROYED BY INABILITY TO ACCOMPLISH GOALS, AS HAS HAPPENED TO OTHERS IN EGYPT, (REFERENCE HERE IS CLEARLY TO CHASE MANHATTAN VP GUNTHER NEUBERT, STILL FIGHTING TO GET HIS OPERATION GOING - ONE YEAR LATER).

6. COMMENT: SUBSEQUENT CONVERSATIONS WITH OFFICIALS AT MINECON COOP HAVE CONFIRMED OPINIONS OF EMBOFFS, CONVEYED TO MHT REPS, THAT IT IS BUREAUCRACY AND NOT POLICY THAT IS AT ROOT OF MHT'S PROBLEMS. ISSUANCE OF FORMAL APPROVAL BY INVESTMENTS AND FREE ZONE AUTHORITY CONSTITUTES PERMISSION BY GOE TO UNDERTAKE ACTIVITIES SPECIFIED THEREIN, AND DOUBTS OF INDIVIDUALS ABOUT WISDOM OF UNDERTAKING ARE OF NO IMPORTANCE. (MHT REPORTED THAT ONE UNDERSECRETARY SAID HE WAS NOT AT ALL SURE EGYPT REALLY NEEDED FREE ZONE BANKS.) WE ARE OF OPINION THAT CENTRAL BANK IS AS ALWAYS ACTIVE IN THESE MATTERS, AND IS PUTTING ON PRESSURE TO DELAY OPERATIONS OF ANY AND ALL KINDS OF FOREIGN BANKS UNTIL IT FEELS TIME IS RIPE. IN THIS PARTICULAR CASE, WE TEND TO DOUBT THAT CENTRAL BANK CAN EFFECTIVELY BLOCK MATTERS.

7. MHT REP HAS GONE TO LONDON TO PRESENT A REPORT TO BOARD OF DIRECTORS MEETING THERE, AND EXPECTS TO RETURN WITH WORD AS TO COURSE OF ACTIONS HE IS TO FOLLOW. WE HAVE ADVISED HIM THAT AMBASSADOR IS PREPARED TO CALL TO ATTENTION OF TOP LEVELS IN GOE THAT THERE ARE OBSTACLES STILL BEING PLACED IN PATH OF ENTRY AND OPERATION OF FOREIGN BANKS, AN ACTIVITY THAT HAS REPEATEDLY BEEN STRESSED AS ONE THAT EGYPT NEEDS AND WELCOMES.
MAESTRONE

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